

SURREBUTTAL TESTIMONY AND EXHIBIT
OF
GEORGE W. EVANS
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-239-E
IN RE: DOMINION ENERGY SOUTH CAROLINA, INCORPORATED’S
REQUEST FOR APPROVAL OF AN EXPANDED PORTFOLIO OF
DEMAND SIDE MANAGEMENT PROGRAMS,
AND A MODIFIED DEMAND SIDE MANAGEMENT RATE RIDER

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is George W. Evans. My address is 358 Cross Creek Trail, Robbinsville, North Carolina 28771. I am the President of Evans Power Consulting, Inc.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and exhibits with the Public Service Commission of South Carolina (“Commission”) on October 23, 2019.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony addresses the rebuttal testimony of Dominion Energy South Carolina, Inc.’s (“DESC” or the “Company”) witnesses Mr. David K. Pickles and Mr. Allen W. Rooks.

Q. WHAT ARE THE ISSUES ADDRESSED BY MR. PICKLES' REBUTTAL TESTIMONY?

A. Mr. Pickles rejects my recommendation requiring DESC to reduce Lost Revenues by Found Revenues. In addition, Mr. Pickles critiques my recommendation that the Company's proposed Shared Savings Incentive ("SSI") be increased from 6.0% to 9.9%.

Q. WHAT IS THE BASIS FOR MR. PICKLES' REJECTION OF NETTING LOST REVENUES WITH FOUND REVENUES?

A. Mr. Pickles bases his critique of my recommendation on the premise that netting Found Revenues with Lost Revenues is prohibited by South Carolina law, is unjust to the Company and would cause public policy goals to be negatively impacted.¹ Mr. Pickles' arguments should be rejected by the Commission for the reason that a clear, limited definition of Found Revenues and an efficient mechanism designed to track and net Found Revenues with Lost Revenues is currently being used by Duke Energy Progress, LLC ("DEP") and Duke Energy Carolinas, LLC ("DEC") and has been adopted by this Commission most recently in Docket Nos. 2015-163-E and 2013-298-E, respectively.² Therefore, this Commission has already determined that my proposed netting of Lost and Found Revenues does not violate South Carolina law.

Q. DO YOU AGREE WITH MR. PICKLES' CHARACTERIZATION OF FOUND REVENUES ON PAGE 4 OF HIS REBUTTAL TESTIMONY?

A. No, I do not agree with Mr. Pickles' assertion that Found Revenues include revenues associated with "[e]conomic development programs, line extensions, meter sets

¹ Page 2, lines 24-31 and page 3, lines 1-4 of Mr. Pickles' Rebuttal Testimony

² Commission Order Nos. 2015-596 (DEP) and 2013-889 (DEC)

1 for new construction, support of electric vehicle charging infrastructure, and other
2 activitie[s].” Mr. Pickles’ categorization of Found Revenues is overly broad and not
3 applicable to the Found Revenue categorization in the context of energy efficiency (“EE”)
4 and demand-side management (“DSM”). The Commission has properly excluded energy
5 and demand increases that result from economic development activities and public policy
6 requests to grow the economy, create jobs or enhance sustainability from the categorization
7 of Found Revenues.

8 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION THAT THE COMPANY**
9 **TRACK, REPORT AND NET FOUND REVENUES WITH LOST REVENUES.**

10 **A.** My recommendation to apply Found Revenues to reduce Lost Revenues in the cost
11 recovery calculation for DESC mirrors that which the Commission approved for DEP and
12 DEC. In the current Docket, my Surrebuttal Exhibit GWE-1 explains how the Net Found
13 Revenues Mechanism would operate and provides the Company with a “decision tree” to
14 guide the categorization, recording and reporting of Net Found Revenues. The cost
15 recovery mechanism as outlined in Surrebuttal Exhibit GWE-1 has operated efficiently and
16 provided DEP’s and DEC’s customers with \$114,880³ in Net Found Revenues since its
17 approval.

18 **Q. IS YOUR RECOMMENDED FOUND REVENUE MECHANISM UNJUST AND**
19 **WOULD THE MECHANISM NEGATIVELY IMPACT PUBLIC POLICY**
20 **GOALS?**

21 **A.** No. Mr. Pickles’ arguments that Found Revenues are unjust to the Company and

³ SC Exhibit 10 to DEP’s filing in Docket No. 2019-262-E

would chill the Company's investment activities in electrification, increase off-peak sales and economic development are general and misplaced. He has offered up no calculation of Found Revenues. I estimate Found Revenues, quantified using the Net Found Revenues mechanism I recommend, to be approximately \$23,000 per year.⁴ This is not an amount that would chill Company investments. In addition, the Net Found Revenue mechanism I recommend excludes energy and demand increases that result from economic development activities and public policy requests to grow the economy, create jobs or enhance sustainability.

Q. WHAT DOES MR. PICKLES' CLAIM REGARDING YOUR RECOMMENDATION TO LOWER THE COMPANY'S PROPOSED SSI TO 9.9% OF NET BENEFITS?

A. Mr. Pickles claims that my recommendation would not allow DESC to earn a net income amount as high as the Company would have earned absent the DSM programs and that my comparisons of DESC achievements to other South Carolina utilities is an unfair comparison.

Q. WHAT IS THE BASIS FOR MR. PICKLES' ASSERTION THAT THE 9.9% WOULD NOT ALLOW DESC TO EARN NET INCOME AS HIGH AS WOULD BE EARNED WITHOUT THE DSM PROGRAMS?

A. Mr. Pickles computes an earnings level of \$5,597,280 (or 11.4% of net savings) based on the Company's cost of installed capacity and the Company's projected DSM demand savings of 115.5 megawatts ("MW").

⁴ \$23,000 is the approximate average annual DEP Found Revenues - \$114,880 divided by 5 years

Q. ARE YOU ABLE TO VERIFY MR. PICKLES' NET INCOME CALCULATIONS?

A. No. ORS issued a discovery request to the Company to obtain information necessary to review and verify Mr. Pickles' calculations on page 7 of his rebuttal testimony. I do not accept that Mr. Pickles' calculations are correct but will address my general concerns with his rebuttal testimony.

Q. DO YOU AGREE WITH MR. PICKLES' COMPUTATION AS REFLECTED IN HIS REBUTTAL TESTIMONY?

A. No, I do not. Mr. Pickles' computation appears to be based on earnings from the Company's currently installed fleet of generation including nuclear units, coal units and other existing generation units. Mr. Pickles asserts that, without the Company's DSM programs, DESC would install additional capacity in a mix equivalent to the Company's existing fleet. This is highly unlikely. The Company's current Integrated Resource Plan indicates that the Company will not require additional resources until the year 2029 and will likely add modern combined cycle or combustion turbine units to meet this capacity need,⁵ at a much lower cost. Mr. Pickles' computation is not based on a reasonable capacity cost.

Q. DO YOU HAVE OTHER CONCERNS WITH MR. PICKLES' COMPUTATION AS REFLECTED ON PAGE 7 OF HIS REBUTTAL TESTIMONY?

A. Yes, I do. Mr. Pickles appears to use DESC's forecasted demand savings for the proposed suite of DSM programs in the year 2024. Mr. Pickles' calculation assumes that DESC will achieve this forecasted demand savings.

⁵ Docket No. 2019-9-E, pages 46-48 of the SCE&G 2019 Integrated Resource Plan

Q. IS IT LIKELY THAT DESC WILL ACHIEVE THIS FORECAST?

A. No. Although the Company has generated substantial energy savings through its DSM programs, the Company's track record on achieving demand savings has not been as commendable. In the Company's latest Evaluation, Measurement and Verification Report, the Company reported that, although it spent 99% of forecasted program costs, it achieved only 69% of forecasted demand reduction.⁶

Q. PLEASE EXPLAIN WHAT YOU BELIEVE TO BE THE FUNDAMENTAL FLAW IN MR. PICKLES' COMPUTATION.

A. Since 2011, DESC has received 6% of the net benefits as a SSI, while achieving only 11.23 MW in peak demand savings. If the Commission were to approve a SSI employing the method and assumptions advocated by Mr. Pickles, the Company should have received only 1.1% of the net savings as a SSI, rather than the current 6%. This confirms that Mr. Pickles' computations are incorrect.

Q. PLEASE ADDRESS MR. PICKLES' CLAIM THAT YOUR COMPARISON TO OTHER SOUTH CAROLINA UTILITIES IS UNFAIR.

A. Mr. Pickles points out, correctly, that DESC has different "customer demographics, rates, trade infrastructure, avoided costs, and other factors"⁷ that make comparisons to DEC and DEP difficult. However, he does not dispute the fact that DESC has achieved lower energy savings as compared to DEC and DEP.

ORS's recommendations do not require that DESC match the energy savings

⁶ Exhibit 2 of the Company's filing in Docket No. 2019-57-E

⁷ Lines 14-17, page 8 of Mr. Pickles' rebuttal testimony

1 achieved by DEC and DEP. DESC requested a higher SSI equivalent to those earned by
2 DEC and DEP,⁸ based on a revised portfolio and increased forecasted energy savings.
3 Because the Company seeks to earn a SSI at the levels earned by DEC and DEP, it is
4 reasonable that in exchange DESC be required to achieve similar savings. Alternatively,
5 DESC's SSI should be adjusted to reflect lower energy saving achievements by the
6 Company. The Company should not be allowed to both have its cake (SSI) and eat it too
7 (producing lower energy savings).

8 **Q. WHAT POINTS DOES MR. ROOKS MAKE IN HIS REBUTTAL IN RESPONSE**
9 **TO YOUR DIRECT TESTIMONY?**

10 **A.** Mr. Rooks testifies that the rate to calculate carrying costs on unrecovered Program
11 balances subject to amortization should be at the current weighted average cost of debt,
12 and that my recommendation on the period for amortization of program costs (the life of
13 the program but no more than three years) adds unnecessary complications to the
14 Company's administrative costs.

15 **Q. PLEASE RESPOND TO MR. ROOKS' CLARIFICATION THAT THE**
16 **CARRYING COSTS WILL BE UPDATED AS THE COMPANY UPDATES ITS**
17 **COST OF DEBT ON AN ANNUAL BASIS.**

18 **A.** I agree with Mr. Rooks' clarification.

19 **Q. PLEASE RESPOND TO MR. ROOKS' CONCERNS ABOUT THE ORS**
20 **RECOMMENDATION FOR PROGRAM AMORTIZATION WILL CREATE**
21 **PROGRAM VINTAGES.**

⁸ Lines 18-20, page 8 of Mr. Rooks' direct testimony

1 **A.** Mr. Rooks is correct in his assessment that my recommendation to match the
2 amortization of the Program costs to the life of the Program will create different cost
3 recovery “vintages.” This is the most precise and fair method to calculate and update the
4 Rate Rider. I acknowledge the administrative complexity that a transition to cost recovery
5 vintages may impose. For this reason, the transition path proposed by Mr. Rooks on page
6 3 of his rebuttal is a reasonable solution. ORS would accept the Company’s request as
7 outlined on page 3 of Mr. Rooks’ rebuttal testimony.

8 **Q. PLEASE PROVIDE A SUMMARY OF YOUR RECOMMENDATIONS IN LIGHT**
9 **OF THE COMPANY’S REBUTTAL TESTIMONY.**

10 **A.** ORS offers the following recommendations, given the Company’s rebuttal
11 testimony:

- 12 1) Allow the Company to amortize Program costs for three (3) years for all
13 programs using the transition path described by Mr. Rooks in lines 3-10 on page
14 3 of his rebuttal testimony;
- 15 2) Approve the Company’s request to change the carrying cost rate to reflect the
16 current embedded cost of long-term debt; and
- 17 3) Require the Company to reduce Lost Revenues by “Found Revenues” as
18 outlined in the Net Found Revenues mechanism reflected in Surrebuttal Exhibit
19 GWE-1.

20 All other recommendations remain as stated in my direct testimony.

21 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
22 **BECOMES AVAILABLE?**

1 **A.** Yes. ORS reserves the right to revise its recommendations via supplemental
2 testimony should new information not previously provided by the Company, or other
3 sources, become available.

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 **A.** Yes, it does.

Net Found Revenues Evaluation

A “decision tree” will be used to evaluate whether activities that may directly or indirectly result in increases in customer demand or energy consumption should be designated by the Company as producing “found revenues” and either filed with the Commission for a determination of their status or reported to the Commission for consideration at its discretion. Net Found Revenues means any increases in revenues resulting from any new activity by Dominion Energy South Carolina’s (“DESC”) public utility operations that causes a customer to increase demand or energy consumption net of any activities undertaken by the Company outside of its approved Demand Side Management and Energy Efficiency (“DSM/EE”) programs that decreases customer demand or energy consumption. Net Lost Revenues means DESC’s revenue losses due to new DSM/EE Measures, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the kilowatt-hour (“kWh”) sale(s) lost due to the DSM/EE Measures,¹ or in the case of purchased power, in the applicable billing period incurred by DESC. Portfolio Performance Incentives will not be considered in the calculation of Net Lost Revenues. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of Net Lost Revenues.

In determining which activities produce Net Found Revenues, the “Decision Tree” (page 3) will be employed. The Company will create a list of all activities that may produce found revenues by directly or indirectly resulting in an increase in customer demand or energy consumption within the Company’s service territory, followed by the elimination, or “filtering out,” of activities that meet certain criteria. More specifically, an activity will be eliminated from

¹ Avoided fuel costs would technically be measured at the marginal cost of fuel avoided at the time of the lost kWh sale(s). However, because fuel costs themselves are subject to true-up, it is administratively easier and results in the same overall revenue requirement outcome to measure fuel costs associated with Net Lost Revenues at the then-current approved prospective fuel and fuel-related cost factor.

the list if it meets one or more of the following criteria (the “decision tree” itself should be referred to for the precise language of each filter):

- (1) The increase in customer demand or energy consumption would have occurred regardless of the activity.
- (2) The increase is the result of a new customer account’s participation in certain DESC economic development activities that have been found by the Commission not to result in found revenues.
- (3) The activity is conducted at the unsolicited request of a governmental unit for the purposes of growing the economy, creating jobs, or enhancing sustainability in the region.

If an activity is not eliminated for consideration by one of these filters, DESC will then evaluate whether the related increase in customer demand or energy consumption is a direct or proximate result of the activity. If it is determined to be so, the Company will designate the activity as one producing found revenues or submit it to the Commission for determination; if not, the Company may presume that the activity does not produce found revenues but will report it to the Commission as part of its annual DSM/EE cost recovery filing. A visual representation of the “decision tree” process follows on the next page.

Net Found Revenues Decision Tree¹

